

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**SB 3763 – HB 3761**

April 23, 2012

**SUMMARY OF AMENDMENT (017125):** Deletes all language after the enacting clause. Exempts the retail sale of food and food ingredients from state sales tax.

**FISCAL IMPACT OF ORIGINAL BILL:**

Decrease State Revenue – Net Impact - \$17,065,500

Increase Local Revenue – Net Impact – Exceeds \$410,200

According to the Department of Finance and Administration, the Division of Budget, the Governor's proposed budget for FY12-13 reflects a recurring decrease in state revenue to the General Fund of \$18,000,000 per year.

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

**Decrease State Revenue – Net Impact - \$469,302,600**

**Decrease Local Revenue – Net Impact - \$16,218,500**

**According to the Department of Finance and Administration, the administration amendment to the general appropriations bill reflects a recurring decrease in state revenue to the General Fund of \$21,300,000.**

Assumptions applied to amendment:

- According to the Department of Revenue, state sales tax collections derived from food and food ingredients in FY10-11 were \$489,939,858.44.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year.
- Under current law, state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$509,733,429 (\$489,939,858.44 x 102.0% x 102.0%) for FY12-13.

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- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$23,409,508 ( $\$509,733,429 \times 4.5925\%$ ).
- The net recurring decrease in state sales tax revenue attributable to the tax rate reduction on food and food ingredients is estimated to be \$486,323,921 ( $\$509,733,429 - \$23,409,508$ ).
- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on other non-food sales-taxable goods and services is estimated to be \$17,021,337 [ $(\$509,733,429 \times 50.0\% \times 7.0\%) - (\$509,733,429 \times 50.0\% \times 7.0\% \times 4.5925\%)$ ].
- The recurring increase in state-shared sales tax revenue apportioned to local governments as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$819,333 ( $\$509,733,429 \times 50.0\% \times 7.0\% \times 4.5925\%$ ).
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services, which includes additional local option sales tax revenue and additional state-shared sales tax revenue, is estimated to be \$7,191,001 [ $(\$509,733,429 \times 50.0\% \times 2.5\%) + \$819,333$ ].
- The net recurring decrease in state revenue as a result of this bill as amended is estimated to be \$469,302,584 ( $\$486,323,921 - \$17,021,337$ ).
- The net recurring decrease in local revenue as a result of this bill as amended is estimated to be \$16,218,507 ( $\$23,409,508 - \$7,191,001$ ).

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/rnc